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Improving the financial situation of the United Nations

Report of the Secretary-General

I. Introduction

1. The present report updates information on the financial situation of the United Nations provided in the report of the Secretary-General of 23 May 1997 (A/51/515/Add.3). It also provides information on the financial situation of the Organization as at 30 September 1997 and cash-flow projections for 1997 and 1998.

II. Overview

2. Since the last report on this subject, the Secretary-General has presented his reform plan on 17 July 1997 and a private donor has indicated his intention to contribute $1 billion over 10 years to United Nations humanitarian activities. Neither of these developments, however, hold the immediate prospect of, or in the case of the $1 billion contribution any prospect, of alleviating the Organization's precarious financial situation. This situation is fundamentally caused by the late payment and non-payment by Member States of assessed contributions.

3. Late and non-payment of assessed contributions has become a recurring practice of many Member States. As a result, the Organization's financial situation today is characterized by continuing arrearage levels in absolute terms; mounting arrearage levels in relative terms; continuing shortages and persistent intervals of regular budget cash deficits; prolonged periods and increasing levels of borrowing from peacekeeping cash for regular budget purposes; and persistent levels of debt to Member States for troops and equipment. Each of these situations is financially destabilizing and taken together they undermine both stability and liquidity.

III. Unpaid assessments

4. At 30 September 1997, amounts for unpaid assessments aggregated $2.416 billion, comprising those for the regular budget, peacekeeping and the international tribunals. For peacekeeping, levels have more than doubled since 1992, for the regular budget they have been rising and an increasing arrearage has also emerged for the international tribunals, even though the figures for the latter are comparatively small.

5. Against unpaid assessments totalling $2.416 billion on 30 September 1997, assessments issued aggregated $2.26 billion. Unpaid assessments thus exceed the current year's assessments by a ratio of 1.07 to 1. In September 1995, by contrast, the ratio of unpaid contributions to current year's assessment stood at only 0.79, while it was only 0.61 in September 1992. As the ratio increases so does the measure of financial illiquidity. This relative deterioration is another measure of the Organization's dangerous financial situation, although there should be some improvement in weeks ahead

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as payments are received in respect of peacekeeping assessments issued in July and August.

6. The major contributor accounts for 60 per cent of all amounts owed to the Organization. The next 14 other principal contributors account for 28 per cent with most of the amount owed by two Member States. Other Member States owe 12 per cent of the aggregate unpaid assessment. While the major contributor accounts for a large part of unpaid assessments, many Member States also contribute to the aggregate unpaid amount. Only seven Member States were fully paid up as at 30 September 1997.

7. The arrearage situation for the regular budget is also of great concern. As at 30 September, 89 Member States had paid their contributions in full — for 1997 and all prior years. This is better than three years ago when only 66 Member States had paid in full, but not as good as last year when 91 had paid in full.

8. In monetary terms, outstanding contributions to the regular budget amounted to $649 million as at 30 September. Of that amount, $382 million is for the current year and $267 million relates to prior years.

9. The major contributor owes 77 per cent of the regular budget aggregate amount. Two of the other 15 principal contributors owe 9 per cent and all other Member States with outstanding contributions owe 14 per cent of the total.

10. The continuing high levels of unpaid assessments for the regular budget, international tribunals and peacekeeping are undermining the financial stability and liquidity of the Organization. The problem has not improved, it is getting worse and arrearage payments are desperately needed.

IV. Regular budget cash situation and forecast

1997 cash situation and forecast

11. At the end of September, collections totalled $972 million against regular budget assessments comprising both payment of current year's assessments and prior years' assessments paid during the current year. Of the aggregate amount, $803 million was contributed by the 15 largest contributing Member States and $169 million by all others.

12. At 30 September 1997, 88 per cent of the amount assessed for 1997 had been collected. That figure compares the amount assessed for 1997 with collections made in 1997, regardless of whether the collection relates to 1997 assessments or prior year assessments. Last year the percentage was comparable at 87 per cent. Both 1996 and 1997 were better than 1994 and 1995 when only 70 and 72 per cent, respectively, of the amounts of assessment had been collected.

13. For the rest of 1997, it is estimated that total cash collections will be approximately $1.15 billion compared with $1.2 billion in 1996 and $1.1 billion in 1995. The 1997 estimate of cash collections, at $1.2 billion, is lower by over $50 million than previously forecast. The shortfall in the estimate reflects the most recent information provided by the major contributor as to that Member State's total contributions to be paid in 1997. Similar information was requested of several other major contributors who confirmed no change in their earlier estimates.

14. In addition to the fact that contributions are lower than expected, expenditures are running $20 million higher than previously estimated. Accordingly, the current forecast of cash balances at year end 1997 is some $70 million less favourable than the forecast presented earlier in the year.

15. It is now forecast that 1997 will end with a deficit of $272 million. During early and mid-1997, cash balances rose and fell, reflecting prompt payment of regular budget assessments by a number of Member States in January and February and significant collections in May and June from a few Member States. After June, there was a month-by-month fall in the cash balance, until the negative year-end forecast position.

16. With a projected deficit in 1997, one more year is added to a pattern of cash deficits in the regular budget account. Through 1994, there had been a pattern of modest and short-lived negative cash balances each year around 30 September with collections in October erasing the negative balance. In the years through 1994, there was a positive year-end cash balance. In 1995 the pattern changed.

17. Beginning in 1995, both the depth of negative cash balances and the number of months the regular budget was in deficit increased. Every year since 1994, the year ended with major deficit positions and with maximum amounts of deficit frequently occurring in even larger amounts. Deficit periods of four or more months became the norm.

1998 forecast

18. Forecasting is inherently subject to a large number of variables that become more difficult to estimate the longer the forecast period. Despite this limitation, a regular budget cash forecast for the year 1998 was attempted, concentrating primarily on discernable patterns of contributions drawn from earlier years' experience.

19. Where large arrearage payments were indicated as a possibility by Member States, such estimates were not included if legislative action was required. A number of Member States were queried as to the possibility of arrearage payments, but only one Member State advised that legislation was expected that would result in a significant arrearage payment. With legislation still pending, however, the anticipated payment was not included in the 1998 forecast and as such the regular budget cash forecast in 1998 shows no real change from the 1997 cash position. A negative cash balance of $261 million is forecast at year end with the negative position predicted to persist for five months in 1998.

V. Peacekeeping cash situation and forecasts

1997 cash situation and forecast

20. At the beginning of 1997, aggregate cash for peacekeeping operations totalled $874 million, while at the end of September usable peacekeeping cash aggregated $745 million.

21. As previously predicted for 1997, disbursements exceeded receipts from May through August. The same situation is also expected in the last two months of the year. Projections show total disbursements exceeding receipts by $204 million. This reflects expenditures under the liquidation phase of several peacekeeping missions that are not balanced by the collection of corresponding assessments. It also reflects the application of some of the accumulated credits in respect of the unencumbered balances of peacekeeping missions, the application of which the General Assembly had earlier delayed. In view of this, it is now forecast that peacekeeping cash at year end will fall to $670 million.

Reimbursements to troop and equipment providers

22. Peacekeeping cash during 1997 peaked in April, when cash balances stood at $999 million. At that point, no significant payments to troop and equipment contributors had been made. It is the intention of the Secretary-General to compensate Member States in 1997 for approximately the amount of obligations incurred by the Organization this year for troops and equipment. Furthermore, he intends to reduce the amount of aggregate arrearage in payments for troops and equipment when Member States remit substantial amounts of arrears of assessed contributions. In 1996, when the Russian Federation paid over $200 million in arrears, this was used at the end of 1996 to pay down the aggregate amounts owed to Member States for troops and equipment.

23. Over the last several months, payments totalling $155 million have already been disbursed to troop and equipment providers. In the next few weeks an additional payment of $65 million is expected to be made. It is envisaged that later in the year the total reimbursement figure for 1997 will reach $270 million.

24. As no Member State has advised the Secretary-General of its intention to make a significant arrearage payment for peacekeeping in 1997, no such amounts have been included in the forecast and no special year-end payment to troop and equipment providers is anticipated. Additionally, as periodically occurs, amounts owed to Member States for contingent-owned equipment have been revalued. This has resulted in an upward adjustment of $100 million.

25. As a result of these two factors, at the end of 1997, amounts owed to troop- and equipment-contributing countries will total $907 million, considerably higher than the $838 million at the end of 1996.

1998 forecast

26. Forecasting is inherently very difficult for peacekeeping, given the changing levels of assessment, unpredictable frequency of assessment, uncertain timing as to the application of credits and changing troop and equipment requirements. As a result, no attempt has been made to forecast 1998 peacekeeping cash as was done for the 1997 forecast. Nonetheless, certain elements of a 1998 forecast may be of interest, based on experience gained over the years in projecting the level of activity, remittance and expenditure patterns and limited input from Member States.

27. In this connection, one Member State indicated that a substantial peacekeeping arrearage payment was likely to be paid, but the payment was uncertain as to timing and, additionally, legislation was required. The 1998 forecast does not, therefore, anticipate that payment.

28. It is forecast for 1998 that the level of activity will be somewhat lower than in 1997, at about $1 billion. With this level of activity, troop and equipment requirements would be expected to range between $220 million and $250 million. It is therefore expected that collection of assessments will permit payments to Member States in 1998 of amounts in a similar range. With no arrearage payments foreseen by any Member State, no significant additional payment of the accumulated troop and equipment obligation by year-end 1998 is expected.

VI. Combined cash and cross borrowing

29. At each year end over the last couple of years, the amount of combined cash balances has been less than that of the year before. At 31 December 1997, combined regular budget and peacekeeping cash is forecast at $398 million while in 1995 the aggregate amount totalled $728 million. Amounts for 1997 are about half of the 1995 amount, showing a steady decline in only two years' time.

30. The extent of deterioration is shown by comparing figures at the end of 1997 with those for 1994. Combined cash is not much different — $398 million in 1997 against $453 million in 1994, but the deficit in regular budget cash has grown ten times over, from a negative $26 million in 1996, to a negative $272 million in 1997 and an estimated negative $261 million in 1998, resulting in high levels of peacekeeping cash being held to cover the regular budget cash deficit.

VII. Conclusion

31. The Organization's financial status reflects continuing arrearage in assessment collections; continuing deficits in regular budget cash; extensive cross borrowings of peacekeeping cash; and levels of debt to Member States that cannot be liquidated.

32. In the past few years the Organization has reached a point where it has little, if any, financial flexibility and is highly illiquid. The United Nations is highly dependent on the level of peacekeeping activity and the forbearance of troop and equipment providers.

33. The collection of arrears remains the key to the restoration of the Organization's financial stability.